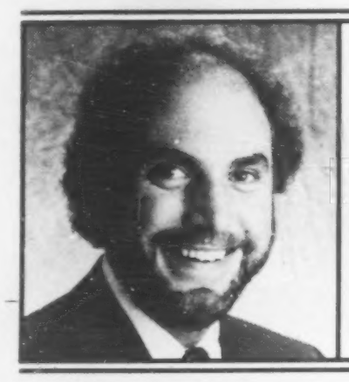
# Picture This . . . Retailer of the Century



**TONY LISANTI**
Editor

And there I was walking down the main aisle of a Wal-Mart store when all of a sudden a strange feeling came over me. I rubbed my eyes and there was David Glass eating a bag of popcorn examining one of Wal-Mart's newest computerized merchandising displays. Everything in this store was different. I wondered, "What store was I in?"

"Well, hello, Tony," Glass said. "Welcome to the grand opening of Wal-Mart's 2,500th store and first location in midtown Manhattan. What do you think of our new high-tech 'customer' store?"

I looked around in awe. Video kiosks were everywhere. Digital electronic signs showed images of poinsettas and flashed a message that said, "Have a Merry Wal-Mart Christmas, 1995!" An alternate message proclaimed the "Lowest Prices in the U.S.A. Guaranteed!"

I heard one vendor say that "this was the first discount store to open in New York City since E.J. Korvettes. And isn't it ironic that Wal-Mart has opened in the same building."

"This store was designed exclusively by a select group of long-time Wal-Mart customers," Glass said. "It's a combination of everything they said would make shopping easier."

The greeter was still there, but this person was now called a "personal sales consultant." The PSC not only greeted customers as they entered the store, but upon request would accompany shoppers through the store previewing new products, subtotaling purchases and sending them to the pre-checkout area. The PSC also carried a hand-held computer with a display terminal and scanner that offered instant price checks and showed product demos and ads. Customers used self-service checkout scanners whil Wal-Mart exiters bagged and arranged for 30-minute home delivery.

The vendor store concept had apparently been expanded as the store was highly segmented and focused with video kiosks giving customers access to a broader lines of merchandise with same-day delivery.

"Thanks for coming," said Glass. "I'll see you Saturday morning in Bentonille for *DSN's* presentation of 'Retailer of the Century.' But you know, Tony, while we're flattered with the honor, we're really not as good as everyone says we are."

What happened to me? That was a strange dream. Imagine Wal-Mart in New York City! Imagine "Retailer of the Century!" Imagine another trip to Bentonville!

## PUBLISHER'S VIEW

# Prepare for the Future With 'People Programs'

**JOHN FAILLA**
Publisher

Are you preparing for the year 2000?

While it sounds a long way off, consider for a moment that the next millennium is closer than events that seemed to have taken place "just yesterday" in 1978.

Given the current rate of change in retailing, and in the world in general, it's almost impossible to predict what type of retail format or what kinds of products will be most successful in the year 2000.

There is, however, one thing that you can bank on—your people will make the difference in the next century as they do today.

After returning from Bentonville, Ark., to present Wal-Mart with the "Retailer of the Decade" Award, I was convinced that whatever changes hit the retail scene, Wal-Mart will find a way to win.

Why? What is it that makes this company, which sells the same merchandise as hundreds of other retailers, stand out from the pack?

The answer is simple—developing people and recognizing the ach vement of associates. This is as important a priority at Wal-Mart as anything else. This unusual commitment to people by management has resulted in 250,000 employees genuinely trying to do their best and all working in the same direction. From headquarters to the back room, every Wal-Mart associate possesses an obsessive desire to succeed.

When this type of energy and drive is forged with the belief that every day they must try to do their job just a little bit better and their ultimate responsibility is to take care of the customer, the results speak for themselves.

If your company isn't involved with "people programs" today that encourage their development as individuals and recognize their achievements, then you really aren't preparing for the future.

Success in any year is entirely dependent on your people.

## IMRA PRESIDENT'S CORNER

# IMRA Salutes Wal-Mart's Spirit of Teamwork

**RICHARD HERSH**

With this issue of *Discount Store News*, Wal-Mart stores is being named "Retailer of the Decade" and it certainly is an honor well deserved. Undoubtedly when one talks about retailing in the '80s, it is difficult, if not impossible, to address the issue without discussing the phenomenon of Wal-Mart.

While he would be the first to tell you that Wal-Mart's success is attributable to the "associates" of the company, there was once only one "associate" and that was Sam Walton himself, and he established the model for all future associates. Today, after all of the years of achievement and growth, Sam Walton still considers himself to be one of the associates of his company.

If ever there was a retailing example of the old axiom that a chain is only as strong as its weakest link, Wal-Mart would be the perfect example because there is indeed a different attitude among the executives of Wal-Mart than perhaps any other major corporation in the United States.

You notice it when you sit with a group of Wal-Mart executives and try to get them to talk about themselves. Rather than taking any personal credit, they are always referring to some else at the table for "his" or "her" fine work. They deflect any accomplishments that they might have achieved to someone else. What is perhaps even more astonishing about this interaction is that it is not just lip service, they really believe it.

When I was first hired to run the association, I was told that I had to go see Sam Walton in Bentonville as soon as possible. When I called Sam he told me that there was not any real reason for me to come down, but if I were "in the neighborhood" he would be delighted to see me at any time. I spent two days in Bentonville, and Sam and his associates talked about how much they could attribute their success to the association and the relationships which they had built up with other members of the organization.

Wal-Mart has always been one of the strongest supporters of the International Mass Retail Association through its participation at conferences, participation on the board, active involvement in government relations and support of the industry. Wal-Mart executives have always been at the forefront of any programs that they have been asked to speak at, and they have always willingly offered their associates' time and efforts in putting together many of the programs which IMRA has held over the years.

When I have had the opportunity to host retailers from other countries, one of the first questions asked is, "What is the secret of Wal-Mart's continuing success?" I always refer to the story illustrated earlier in this column about the teamwork which makes Wal-Mart work.

While it is unusual for me to use this industry column to speak only about one of our fine members, the occasion of Wal-Mart being named "Retailer of the Decade" simply could not go by without my offering the congratulations of the association to Sam Walton and to all of his associates.

It has been an honor to represent you and assist you in some small way.

*Discount Store News.*

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We welcome our readers' views, whether pro or con. Letters to the editor should be addressed to: Editor, *Discount Store News*, 425 Park Ave., New York, NY 10022.

# Selling Machines Are Familiar Sight at Airports

(Continued from page 24)

er-Price, Sony, Seiko, Waterford, Godiva Chocolates, Sophisticated Intimates and Baileys Banks & Biddles.

Host Gift USA is a true retailing venture, with Amtech's buying staff selecting merchandise in six categories: gifts for kids, male recipients, female recipients, executives, recreational use and for the home. The goods, which the company owns, are stocked and shipped from a Chattanooga, Tenn., warehouse. Host International handles the real estate end, obtaining the airport sites and future locations in hotels, the venture's next targeted market.

***The kiosks reportedly sell one to 14 items daily; the average sale is about $50. Gift items are popular. Shoppers insert a credit card to pay for merchandise and use a built-in telephone to give delivery instructions.***

When Host Gift USA was introduced 14 months ago at a press conference, Greenberg estimated that 40,000 people a day would pass a kiosk, which would sell 10 items per day, average $60 per transaction, and generate $15,000 to $20,000 in monthly gross sales.

These projections, he explained, were based on Amtech's previous selling machine experience with Express Shop USA kiosks. These first generation units were tested in 1984 in over a dozen airport terminals.

Host Gift USA uses off-the-shelf hardware, with Amtech writing the software and producing the videos showing the goods and services. "We are creating a new merchandising and marketing environment with these kiosks," Greenberg said at the press conference. "While we want to sell kiosks, we are basically merchandisers using a new technology."

Amtech's effort to position second generation Host Gift USA as the ubiquitous selling machine includes promoting QTV, which stands for Quick Touch Video, as the nomenclature for its interactive technology and how people use its system to obtain merchandise.

The kiosks employ laser videodiscs to store and present still full-color photos of the merchandise and scenes of the hotels and restaurants on touch-screen monitors, eschewing the use of keypads.

Minicomputers in the terminals drive the system, calling up the graphic information like the price and order number of the merchandise, hotel rates and the restaurants' menus and processing orders. Audio and visual prompts guide shoppers.

Shoppers insert a credit card to pay for merchandise and use a built-in telephone to give delivery instructions.

The videodiscs are replaced monthly so they can show new items and services, while the computers can be updated daily, Greenberg said.

The kiosk setup includes a bank of three 20-inch television monitors above the interaction terminals. The videos on the 60-minute loop show promos for the merchandise available through the kiosks, along with ads for goods that manufacturers want to just expose to airport patrons.

Host Gift USA's new locations are in airports in Los Angeles; San Francisco; Anchorage, Alaska; Tampa, Fla.; and Washington, D.C. (National and Dulles). A total of 63 kiosks are already in Atlanta; Baltimore; Boston; Buffalo, N.Y.; Charlotte, N.C.; Cincinnati; Dallas; Greensboro, N.C.; Las Vegas, Nev.; Minneapolis; New York (JFK); and San Diego.

The 15 Concierges are in Atlanta; Boston; Chicago (O'Hare); Detroit; Ft. Lauderdale, Fla.; Houston; Los Angeles; Miami; New York (JFK, La Guardia and Newark); Philadelphia; San Francisco; and West Palm Beach, Fla.

## FOR THE RECORD

### Cosmetics: Top Brands Vary by Type of Outlet

| Brand | All Discounters | | Conventional Discounters | | Upscale Discounters | |
|---|---|---|---|---|---|---|
| | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 |
| Maybelline | 74% | 70% | 76% | 75% | 61% | 57% |
| Cover Girl | 51 | 44 | 54 | 44 | 36 | 46 |
| Revlon | 35 | 31 | 28 | 22 | 70 | 76 |
| Max Factor | 11 | 12 | 10 | 9 | 18 | 23 |
| L'Oreal | 7 | 7 | 7 | 10 | 6 | 14 |
| Noxell | 4 | 9 | 4 | 10 | — | 2 |
| Clarion | 3 | — | 3 | — | 1 | — |
| Clairol | 2 | 4 | 2 | 4 | 2 | 4 |
| Coty | 1 | — | 2 | — | — | — |
| Sally Hansen | 1 | 3 | 1 | 3 | 1 | 1 |

*Source:* Discount Store News/Leo J. Shapiro & Assoc.

*Noxell, which manufactures Cover Girl and Clarion cosmetics, ranked sixth on the Top Brands list identified by store managers as top performers in cosmetics. Sally Hansen-brand cosmetics came in 10th. Due to compilation errors by DSN's pollster, the Oct. 16, 1989 issue reported a lower ranking for Noxell, and Sally Hansen was dropped from the list. In addition, the Oct. 16 issue misidentified Max Factor's parent company. Revlon is the parent company of Max Factor.*

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# The 'Little Things' Add Up to Trust

By Tony Lisanti

"If I were going to tell our people five ways to be successful," said David Glass, "they would be:
1. Think like a customer.
2. Sell the customer what they want to buy.
3. Provide a genuine value to the customer.
4. Make sure the customer has a good time.
5. Exceed the customer's expectations."

It's no accident that every point Glass makes has to do with the customer.

Customer. C-U-S-T-O-M-E-R. That's a big and important word for any retailer. But for Wal-Mart it's the gospel according to founder and chairman Sam Walton.

"I always had confidence that as long we did our work well and were good to our customers, there would be no limit to us," said Walton.

Customer service is not lip service for the "Retailer of the Decade."

And apparently today's more demanding and more fickle consumer has responded.

### Strengthening Over Time

The American consumer's love affair with Wal-Mart is not a fling of sorts that will abruptly end, but it is a relationship built on commitment and trust that seems to get stronger and stronger over time.

In order to better understand the customer franchise that Wal-Mart has nurtured through the 1980s as it grew by about 1,000 stores and dozens of new markets, *DSN* commissioned an exclusive research study from Leo J. Shapiro & Associates, a Chicago-based research firm. The results of the study are based on interviews with 902 households conducted during August and September.

To understand the Wal-Mart customer, you must understand almost every other facet of the retailer's business. The fact is that everything Wal-Mart does from store design to bar coding to lighting to greeters—regardless of how simple or complex—is implemented only after carefully considering the impact on the customer. Virtually nothing is done without the guarantee that it benefits the customer in some way.

Furthermore, the relationship with the customer evolves from the retailer's own corporate culture. The whole idea of an associate being involved in the decision-making process, sharing the good news and the bad news, and being positively reinforced for their ideas and performance, has created a tremendous company spirit and pride of workmanship on every level of management from the headquarters office to the stock room.

"Day in and day out," said Glass, "it's the little things that you do."

And inevitably all those "little things" that Wal-Mart does for its associates, its associates do for the customer.

As a result, Wal-Mart has been able to build loyalty and trust among its customers that is unparalleled among other retail giants.

Currently, according to the *DSN*/Leo J. Shapiro study, Wal-Mart stores are within reach of 37 percent of U.S. households, and remarkably, 34 percent of the households report having shopped at Wal-Mart within the past year. In 1987, Wal-Mart stores were within reach of 28 percent of U.S. households and 22 percent reported that they had shopped Wal-Mart within the past year. In two years, Wal-Mart has increased its customer base by more than 50 percent, with an increase of only about one-third in store coverage.

*Within a two-year span from 1987 to 1989, Wal-Mart has expanded its customer base by 50 percent.* (DSN photo)

By contrast, during the same two year period, K mart's coverage and customer base held steady. Currently, K mart stores are within reach of 85 percent of U.S. households and 72 percent report having shopped at K mart within the past year compared with 84 percent and 69 percent, respectively, in 1987.

Target stores are within reach of 40 percent of U.S. households while 32 percent report having shopped Target during the past year.

Another interesting fact revealed in the *DSN*/Shapiro study is that not only do customers spend more time getting to Wal-Mart then they do getting to K mart and Target, but they also spend more time shopping the store.

For example, survey respondents reported that it took them an average of 20.2 minutes to get from home to a Wal-Mart store and they spent an average of 41.1 minutes shopping the last time they visited a Wal-Mart store. By contrast, K mart was closest to home with an average of 15.9 minutes, but customers spent the least time shopping, reporting an average of 35.6 minutes. Respondents said that it took them 18.2 minutes to get to a Target store, and they spent an average of 39.5 minutes in the store.

It could be argued that with Wal-Mart's rural strategy and K mart's more urban presence that people would generally have to travel longer to get to a Wal-Mart store. However, Wal-Mart draws from a greater distance as well.

"We have an unbelievable number of people that travel from the major metro areas to the small communities to shop our stores there which is the exact opposite of what is historically taking place in the industry," said Don Soderquist, vice chairman of Wal-Mart.

*(Continued on page 162)*

**Store Proximity And Usage**

| Store | % With Store In Area | % Who Shopped In Past Year | Distance of Customer To Store (Mean Min.) | Avg. Time Spent On Last Visit |
|---|---|---|---|---|
| Wal-Mart | 37% | 34% | 20.2 min. | 41.1 min. |
| K mart | 85 | 72 | 15.9 | 35.6 |
| Target | 40 | 32 | 18.2 | 39.5 |

Source: Leo J. Shapiro & Assoc/DSN

**Store Location By Metro Area**

| | Store In Area | | |
|---|---|---|---|
| | Wal-Mart | K mart | Target |
| One Million or More Metro Area | 23% | 38% | 54% |
| Under One Million Metro Area | 36 | 38 | 33 |
| Non-Metro Area | 40 | 24 | 13 |

Based on: "Is There a . . . Store in Your Area?"

Source: Leo J. Shapiro & Assoc/DSN

**Shopper Characteristics**

Respondents who shopped at one of the stores in the past year

| Characteristic | Store In Area | | |
|---|---|---|---|
| | Wal-Mart | K mart | Target |
| % Black | 5% | 6% | 7% |
| % Hispanic | 4 | 5 | 3 |
| Mean Age | 43.0 | 42.0 | 43.8 |
| Mean Household Size | 2.93 | 3.06 | 2.97 |
| % With Children | 44 | 46 | 43 |
| % Professional/Managerial Chief Breadwinner | 31 | 35 | 31 |
| % Blue Collar Chief Breadwinner | 28 | 26 | 30 |
| Mean Income (In Thousands) | $30.5 | $31.8 | $29.9 |
| % Attended College | 44 | 46 | 46 |
| % Who Own Their Own Home | 74 | 67 | 70 |

Source: Leo J. Shapiro & Assoc/DSN

WAL-MART

Chapter 4: An American Love Affair

# The 'Little Things' Add Up to Trust

(Continued from page 161)

"Our strategy is to go into smaller markets first before we hit major metro areas because you've got a smaller population base to convince over. So you begin to get the acceptance in smaller markets and the word begins to travel around and people begin to travel further and further to get to your stores."

Overall, the above numbers reflect the tremendous penetration and powerful position of Wal-Mart in the retailing industry. With less than half of the store coverage, Wal-Mart is approaching K mart in sales volume. The potential for continued growth and expansion is mind-boggling.

There's no doubt that Wal-Mart's performance is based on its competitive appeal. When asked to compare Wal-Mart with K mart and Target, the consensus of households is that Wal-Mart is as good or better. For example, of the households with a Wal-Mart in the area, 59 percent said that Wal-Mart is better than K mart and Target; 33 percent said it was the same. Only 4 percent rated Wal-Mart worse than K mart and Target.

Furthermore, Wal-Mart has garnered a favorable reputation even in areas that do not yet have a store in operation. Over one-third of the households surveyed felt that they had enough of a familiarity with Wal-Mart to compare it with K mart. Ten percent of the consumers surveyed said Wal-Mart is better; 22 percent said it is the same; and only 3 percent said it is worse than K mart.

"The acceptance we have out in the market is unbelievable," said Glass. "It's just not that big a problem to push the perimeters out."

"The acceptance is incredible," echoed Soderquist. "In Arizona, there's a lot of retired people who shop Wal-Mart. In Florida, we are known by a lot of people. People who travel to Arizona or Florida for vacation or part of the winter go back to Pennsylvania, New York, Michigan, Ohio and say, 'When are we going to get a Wal-Mart up here?' They've already been preconditioned a bit."

At present, 90 percent of U.S. households that have a Wal-Mart store in their area also report they have a K mart. However, only 39 percent of K mart stores face competition from Wal-Mart.

"Clearly, Wal-Mart faces no barrier in confronting the many K mart stores with which it does not yet compete as it enters nearly two-thirds of the United States it does not yet serve," noted George Rosenbaum, president of Leo J. Shapiro & Associates.

Another key component of America's love affair with Wal-Mart is price. When asked why Wal-Mart is better, 55 percent of the respondents with a Wal-Mart in their area said lower/better prices. A further evidence of the phenomenon of Wal-Mart and its strong reputation is that 33 percent of households not in an area with a Wal-Mart store cited lower prices as a reason why the discounter is better.

Variety/selection and good quality were the other top reasons cited by consumers when asked why Wal-Mart is better. Thirty percent said variety; 18 percent said good quality.

"This confidence about purchases from Wal-Mart is underpinned by a 'user-friendly' store environment," explained Rosenbaum. "Shoppers feel that Wal-Mart is easy to shop—well-organized and also friendly."

Glass explained that when Wal-Mart goes into the major metro areas many observers believe that the "friendly, old folksy attitude" is not going to mean as much as it does in the small towns. "To the contrary," Glass emphasized, "it means more. People want to be treated nice everywhere. They like a warm smile in most places."

Wal-Mart's continuous growth as a general merchant, at a time when such retailers have declined, is exemplified in the fact that its customers have steadily increased the amount of money they spend in the store. The retailer has been able to satisfy the general merchandise needs of consumers.

"Wal-Mart is benefiting from the departure of traditional general merchandisers and has effectively moved into the vacuum to perform this role," observed Rosenbaum. "Its growth as a general merchandiser in the final decade of this century will be comparable to and likely exceed the growth of Sears as a general merchandiser during the postwar decades."

Among consumers who have shopped at Wal-Mart for two years or less, just 30 percent report that they are spending more that $300 per year. This rises steadily and nearly doubles among customers who have shopped Wal-Mart for eight years or more. The mean expenditures for Wal-Mart shoppers of less than two years is $262; for shoppers of three to seven years, $403; and for shoppers of eight years or more, $667.

One of the most revealing results of the survey is that when Wal-Mart shoppers are asked what they would miss most if Wal-Mart were to close down, nearly 25 percent were unable to mention any significant consequence. Most shoppers mentioned low prices and convenience/close to home as the two aspects they would miss most if Wal-Mart closed.

"This response indicates that adjustment to doing without Wal-Mart would be rather painless for many customers," explained Rosenbaum. "Wal-Mart is perceived as wonderful, but also as dispensable."

What merchandise would Wal-Mart shoppers miss most? Housewares, clothing, automotives and health and beauty aids were cited most frequently.

Almost every respondent has a store in mind that they would substitute for Wal-Mart and, most often, it was another discount store. For example, 38 percent of the Wal-Mart shoppers said they would go to K mart, and 19 percent said they would go to Target. Only a small percentage of shoppers said they would substitute a specialty store such as a drug store or variety store.

"In the 1990s, Wal-Mart will be approaching a period where the combination of its dominance and age may create a situation not unlike that faced by Sears in the last decade," said Rosenbaum. "While there is no evidence that Wal-Mart customers will cause history to repeat itself, the fact that consumers feel they can readily do without Wal-Mart is a warning that past performance offers little protection against the consequences of misreading and failing to respond to the market."

**Wal-Mart Compared To Stores Like K mart And Target**

| | Wal-Mart Store In Area | Wal-Mart Store Not In Area |
|---|---|---|
| Better | 59% | 10% |
| Worse | 4 | 3 |
| Same | 33 | 22 |
| Don't Know | 3 | 11 |
| Never Heard of Wal-Mart | — | 54 |

Source: Leo J. Shapiro & Assoc/DSN

**Why Is Wal-Mart Better?**

| | Wal-Mart Store In Area | Wal-Mart Store Not In Area |
|---|---|---|
| Lower/Better Prices | 55% | 33% |
| More Variety/Selection | 30 | 20 |
| Good Quality | 18 | 3 |
| Friendly Employees/Better Help | 8 | 2 |
| American-Made Items | 7 | 6 |
| Fast Checkout | 4 | 5 |
| Better Than Other Store | 6 | — |
| Automotives Department | 4 | 5 |
| Organized/Clean | 6 | 8 |
| Better Displays | 3 | 3 |
| Good Return Policy | 4 | — |
| Other | 12 | 13 |

Source: Leo J. Shapiro & Assoc/DSN

**Wal-Mart: The Best Merchant Anywhere**

*How would you rate the founder of Wal-Mart as a merchant that really understands your needs, rated on a nine-point scale, here '9' means the best merchant anywhere down to '1' meaning a merchant that's not so good?*

| | Wal-Mart Shoppers |
|---|---|
| Best Merchant Anywhere (9) | 35.0% |
| 8 | 31.0 |
| 7 | 14.0 |
| 6 | 8.0 |
| 5 or Less | 12.0 |
| Mean Rating | 7.8 |

Source: Leo J. Shapiro & Assoc/DSN

**What Merchandise Would You Miss Most?**

| | Wal-Mart Shoppers |
|---|---|
| Housewares | 16% |
| Clothing | 15 |
| Automotives | 14 |
| Health and Beauty Aids | 13 |
| Children's Department | 11 |
| Sporting Goods | 8 |
| Pharmacy | 7 |
| Arts and Crafts | 6 |
| Lawn and Garden | 4 |
| Hardware | 4 |
| Sewing/Fabric | 4 |
| Electronics | 1 |
| Other | 20 |
| None | 14 |

Source: Leo J. Shapiro & Assoc/DSN

*Even though consumers consider WAL-MART the "best merchant anywhere" -- most would shop at another discount store if WAL-MART left.*

**If Wal-Mart Left Your Area, Where Would You Go Instead?**

| | Wal-Mart Shoppers |
|---|---|
| K mart | 38% |
| Target | 19 |
| Another Wal-Mart | 4 |
| Zayre | 1 |
| Sears | 1 |
| Other Discount Store | 9 |
| Department Store | 3 |
| Variety Store | 2 |
| Drug Store | 2 |
| Auto Store | 1 |
| Other | 5 |
| Don't Know | 15 |

Source: Leo J. Shapiro & Assoc/DSN

**For Reprints of This Special Wal-Mart issue, See Our Order Form Located on Page 79.**

# DCs Form Groundwork for Growth

(Continued from page 199)

del Jr. and John E. Heinbockel in a recent report.

The Searcy DC is within 300 miles of each of the current and planned Hypermart USAs and Wal-Mart SuperCenters, each of which devote as much as half of store space to food/grocery items.

Kritiansen at Dean Witter Reynolds concurred. "I'm sure they'll go into food distribution. They teamed up with Cullum to learn about the food business and then bought them out. The next logical step is to go forward with this."

This summer Wal-Mart purchased from Cullum the food distributor's 50 percent interest in the Hypermart USA joint ventures in Garland and Arlington, Texas.

Wal-Mart's own grocery merchandisers are now responsible for a growing supermarket business that includes the two Texas hypermarkets, the Hypermart USA in Topeka, Kan., and three Wal-Mart SuperCenters. By 1991 the chain is expected to add at least one more hypermarket and three more SuperCenters.

### The Next Step

Similarly, Daniel Barry, analyst at Kidder Peabody, noted that " they are already buying food. There's no doubt that they will soon want to do that themselves as they move forward with SuperCenters."

On that matter, all Glass would say is that the central distribution of food "would appear to be a logical step. But I don't want to appear presumptuous. We're still learning. We're not better than everybody else as far as experience is concerned."

Several retail analysts agree that despite its expertise in managing a far-flung general merchandise distribution network, Wal-Mart is not yet sufficiently prepared to similarly master the intricacies of wide-scale food distribution.

Dan Wewer, a securities analyst at Atlanta-based Robinson Humphrey, said he does not believe the company is ripe yet for food distribution.

### Not Quite Ready

"They don't have the management capability yet to run a food DC. They need to develop ranks of management. . . I think they will need to bring in new management. I would guess they are making a lot of calls to major food stores looking among management for someone to guide their food business," he said.

Lyle Carr, manager of general merchandise systems at Rapistan, said the current DC network could theoretically be used for food.

"From an equipment standpoint, a food distribution system is almost identical to one that handles general merchandise. The primary difference in grocery is that the food people usually palletize at shipping prior to truck loading, while general merchandise is loose stacked in the truck," Lyle explained.

While Wal-Mart has been able to stave off any unionization—and accompanying wage demands—among its associates to date, there is some question as to whether this can continue as it enters the highly unionized grocery arena, Wewer added.

While highly unlikely given Wal-Mart's corporate culture, unionization could force store level and distribution center wages higher, and ultimately weaken the bottom line.

*A logical expansion of Wal-Mart's central warehousing network would be a move into food distribution.* (DSN photo)

**Distribution Center Snapshot**

| | |
|---|---|
| Facility Size | 14 to 28 acres under one roof |
| Sku's Handled | 9,000 to 11,000 |
| Number of Employees | 500 to 1,000 plus |
| Number of Pick Modules | 14 (10 are 3 levels high; 4 are floor level) |
| Amount of Conveyor | 9 miles to 11 miles |

Source: DSN research

# Low Distribution Costs Buttress Chain's Profits

Distribution of goods—and its link to inventory turns and keeping in stock—is quickly earning the spotlight as one of the biggest reasons behind the profitability of Wal-Mart.

Unlike its rivals, Wal-Mart spends just 1.7 percent of its cost of sales on distribution, said a Wal-Mart source. Based on interviews with about a dozen retail analysts, this figure is dramatically less than that of K mart, Sears and most other retailers.

Taking into consideration the fact that most other retailers measure distribution as compared to total sales (instead of cost of sales like Wal-Mart), the Bentonville, Ark.-based retailer is still easily the victor in the battle of cost control.

K mart spends about 3.5 percent of total sales on distribution. Sears, which has the added expense of catalog sales distribution—spends 5 percent. Northeast office supply club Staples—which has one DC in operation—was said to spend about 3.5 percent of its sales to run the single facility.

What does this mean in dollars? First, assume a 25 percent gross markup on Wal-Mart's cost of goods sold (as suggested by one Wal-Mart distribution expert).

Then assume that the dollars spent or saved on distribution impacts the bottom line dollar for dollar. If Wal-Mart had the same distribution costs as K mart, $460 million would drop off Wal-Mart's bottom line for 1988. The annual report would list operating profits of about $840 million instead of $1.3 billion.

If Wal-Mart really let distribution costs get out of control and saw them reach Sears' 5 percent level, Wal-Mart's profits last year would have plummeted to $531 million, as costs soared to $769 million.

Wal-Mart's chief executive officer David Glass acknowledged the company's distribution system as a primary factor setting the chain apart from the pack of other retailers.

"Our distribution facilities are one of the keys to our success. . . if we do anything better than other folks, that's it," he told *Fortune* magazine.

"Wal-Mart has made distribution logistics the competitive advantage," said Marge Meek, consultant with Boston-based Coopers Lyband. "Distribution has been key in keeping total operating costs as much as 2 percent below everyone else in discounting."

Besides cost containment, the other key bottom line benefit of Wal-Mart's efficient distribution system is its ability to keep stores stocked. The company rarely loses sales due to out-of-stocks.

Even when the chain is first entering a market, front-loading the region with a new DC has meant customers rarely experience an out-of-stock situation, even with new stores.

Wal-Mart typically opens a new territory by first opening a few stores and servicing them from a current DC. It then opens a new regional DC that supports further growth in the new markets.

**Wal-Mart's Amazing Distribution Cost Advantage**

| Chain | 1988 Sales (in millions) | Distribution Cost (in millions) | Cost of Dist. As % of Sales |
|---|---|---|---|
| Wal-Mart | $20,649 | $ 263* | 1.3% |
| K mart | 27,301 | 956 | 3.5 |
| Sears | 50,251 | 2,513 | 5.0 |

*Calculated after subtracting 25 percent mark-up from total sales to achieve cost of sales.

Source: DSN research, company reports

For example, next year Wal-Mart will open its most western DC, in Loveland, Colo., to supply it initial stores in California. Since each DC can serve about 150 Wal-Marts, the Loveland facility provides a base for the addition of new stores in current states with Wal-Mart stores—like Colorado, Arizona and New Mexico—further growth in California, and opens new markets in Utah, Nevada, Wyoming, Idaho, and Montana.

Dan Wewer, retail analyst with Atlanta-based Robinson Humphrey, credits Wal-Mart with creating a smooth transition period as a DC goes into operation.

"The chain has the ability to open a new DC with virtually no interruption in business. Look at Dollar General, look at Brendles catalog showroom several years ago, and you'll see interruption."He added Wal-Mart "has the cookie cutter down pat; they can open a new DC as easily as a new store."

Frequent—usually daily—deliveries to stores allow Wal-Mart to react more swiftly than competitors to sudden inventory demands, further solidifying its in-stock position.

Daniel Barry at Kidder Peabody estimated that compared to Wal-Mart's daily delivery regimen, "K mart is closer to once every five days. Target moved up deliveries a lot in the past year. Some are daily, some are every two to three days. On average, Target delivers every three to four days."

Wal-Mart has other, more intangible advantages. One analyst claims that Wal-Mart delivery trucks often are not held to the same rules of the road as other truckers, enabling them to shave time—and costs—off the delivery of merchandise.

Wewer at Robinson Humphrey told *DSN* that he has been told by Wal-Mart DC employees that the chain's trucks are often waved through checkpoints when others are required by law to stop. "When the trucks cross state borders, a number of states don't make them pull over. Little things like that can add up," he said.

WAL-MART

Chapter 10: Generosity on a Budget

# A Grass-Roots Approach to Charity

*One day last year, 15 associates of the Anadarko, Okla., Wal-Mart brought their electric skillets from home and spent four hours after work whipping up a batch of 300 apple, cherry and pineapple "fried pies."*

*The next day they sold the pies to Wal-Mart customers for $1 apiece in a fund-raiser to benefit the Anadarko Chamber of Commerce's Grant-A-Wish program for children facing terminal illnesses. The Wal-Mart Foundation, the charitable arm of the company, matched the money that the store associates raised through customer generosity.*

**By Richard C. Halverson**

Nothing serves better than fried pies to illustrate the grass-roots approach that Wal-Mart takes to corporate philanthropy. With typical Wal-Mart efficiency, that approach generates enormous amounts of community goodwill, customer loyalty and favorable publicity with outlays from corporate profits that are relatively modest, compared to those of other major retailers.

Wal-Mart's approach has built a towering reputation among its customers for corporate largesse. However, it's a reputation that fails to carry over into professional philanthropic circles, in part because Wal-Mart maintains a low profile.

Its foundation declines to issue an annual report detailing outlays. Wal-Mart would not disclose to the press the amount it gave to charities in 1988 and has yet to file its report on last year's contributions with the IRS.

Moreover, Wal-Mart ranks last among major discounters in terms of the percentage of pretax earnings it donates to charity, the standard benchmark for corporate generosity. By that measure, in 1987, the latest year for which the Wal-Mart Foundation figures are available, arch-rival K mart gave 3.6 times as much.

With 1987 assets of $6 million, the Wal-Mart Foundation ranks nowhere near the top 100 corporate foundations. But in charitable circles where it counts—in the hundreds of towns where it operates stores—Wal-Mart stands tall as king of the hill.

Dan Harness, mayor of Harrison, Ark., said Wal-Mart fund-raisers to support community organizations "make shoppers more loyal to Wal-Mart. My wife enjoys shopping there because of what they do. It's amazing the interest they take. They get involved in all areas, especially the schools."

Wal-Mart store associates in Harrison raised "several thousands" to help pay for a boy's kidney transplant by selling chances on "beef-on-the-hoof," Harness said. After the steer was butchered, each of two winners got a side of beef.

To help purchase a new fire department rescue truck, the Harrison store donated merchandise to be raffled off. Then the Wal-Mart Foundation donated money, Harness said. In another merchandise donation, the Harrison Wal-Mart gave door prizes for a school benefit supper.

"The policy is to be a good corporate citizen, and boy, they certainly have done that," Harness exclaimed.

"They bent over backward and have done whatever they were asked to do."

Three principles guide Wal-Mart's philanthropic program:

- Involve its employees and customers in in-store fund-raising campaigns;
- Leverage contributions by matching monies employees raise through such in-store drives;
- Focus contributions on programs that most directly touch the lives of its customers.

Those contributions include a college scholarship worth $1,000 over two years that each store manager grants every year to a high school senior living in the store trading area. In a brief summary of corporate giving in its 1989 annual report, Wal-Mart said the foundation spent $1.2 million in 1988 on such scholarships.

A new program started in 1988 is to support the Children's Miracle Network, a telethon held each June to raise money for children's hospitals.

In 1988, Wal-Mart associates raised $1.5 million from customers with various in-store promotions, and the foundation added $1 million, a Network spokesman said. In 1989, the total rose to $3 million, half from associates' in-store fund-raisers and half from the foundation, the spokesman said.

Wal-Mart matches the amount that store associates raise from customers in in-store campaigns for community organizations and local United Way chapters, up to $2,000 per organization and $2,000 per United Way chapter.

As another example of the mileage Wal-Mart gains from its giving, the chain reaped national publicity for having donated $1 million worth of goods to the relief of victims of Hurricane Hugo in the Carolinas. What the news accounts failed to say was that the $1 million worth of goods was a joint effort with Wal-Mart's vendors. Nonetheless, Wal-Mart got all the national credit because it shipped the goods in Wal-Mart trucks. It refused even to name the vendors for *DSN*, much less disclose what portion of the $1 million they donated.

In 1987, the latest year for which figures are available, the Wal-Mart Foundation gave $4.3 million, as reported to the IRS on its 990-PF (Return on Private Foundation) report. That's equal to 0.41 percent of Wal-Mart's pretax earnings of $1.07 billion.

In comparison, K mart contributed $17.4 million in 1987, or 1.49 percent of its pretax earnings of $1.17 billion. The average that year for 228 corporations was 1.05 percent, The Conference Board concluded from its 1989 survey of corporate giving.

In addition, in 1987 Wal-Mart associates raised an estimated $1.8 million through in-store fund-raisers such as car washes, rummage sales, fried pie and bake sales, raffles of merchandise—either donated by Wal-Mart vendors or stores or purchased by employees—and cash solicitations from customers. That brought the total to approximately $6.1 million between the foundation and individual stores.

The 1987 Wal-Mart Foundation giving represented a doubling in percentage terms from 1986, when the foundation gave $1.7 million in grants, or 0.2 percent of Wal-Mart's pretax earnings of $846 million.

The Wal-Mart Foundation got an extension for filing its 1988 990-PF report to the IRS, due April 15, 1989, a spokeswoman said. Wal-Mart refuses to discuss its charitable program, so the exact amount store associates raised in-store is unavailable.

### Giving Fits Culture

Associate involvement in fund raising fits squarely into the Wal-Mart corporate culture.

"This company is unique because it requires involvement," vice chairman and chief operating officer Don Soderquist said in an exclusive interview with *DSN*. "There's a pressure to get involved."

Foundation grants and associate fund-raising present only part of the Wal-Mart philanthropic picture. In addition, the private giving of Sam Walton through two active family foundations, the Sam M. and Helen R. Walton Foundation and the Walton Foundation, often buttresses the philosophical goals of the Wal-Mart Foundation.

Walton's private and Wal-Mart corporate giving, for instance, both emphasize education and support for the American free enterprise system.

In at least one year in the '80s, Walton Enterprises, which oversees Walton's personal business holdings, including nine banks and an interest in a 22-store Food for Less supermarket chain, gave $1.8 million to the Wal-Mart Foundation. In comparison, Wal-Mart stores contributed $4 million to the foundation that same year, the foundation's 1986 990-PF shows.

As an example of the way private and corporate charity overlaps, Walton played tennis for the second year in a row in an annual tennis and golf fund-

*(Continued on page 222)*

*TV star John Schneider (left) accepts a check on behalf of the 1989 Children's Miracle Network from Don Shinkle, Wal-Mart's corporate and public affairs director.*

**1981**
Wal-Mart establishes Wal-Mart Foundation, gives $64,700.

**1985**
Annual giving total surpasses $1 million mark.

**1987**
Wal-Mart Foundation doubles contribution percentage to 0.41 percent of net earnings before taxes from 0.2 percent. Total giving for community scholarships exceeds $1 million as store count surges.

**1988**
Wal-Mart Foundation adopts new cause: children's hospitals, and raises $2.5 million, including $1 million from foundation coffers.

**1989**
Wal-Mart Foundation raises $3 million to benefit children's hospitals, half from foundation pockets.

**Wal-Mart's philanthropic program is guided by three principles:**

- **Involve employees and customers in in-store fund-raising campaigns;**
- **Leverage contributions by matching monies that employees raise through such in-store drives;**
- **Focus contributions on programs that most directly touch the lives of customers.**

# Retailer Goal: Be Positive Impact on Community

(Continued from page 221)
raising tournament held this summer at a country club outside Bentonville, Ark. Wal-Mart, the Walton Foundation, and the Phillips Company, which operates the supermarket chain that Walton co-owns, co-sponsored the tournament, raising $430,000 for cancer research.

And Wal-Mart vendors contributed by playing at Wal-Mart's invitation. "When Wal-Mart asks you to jump, you only ask how high," said a spokesman for one of the participants.

As for the philosophy that governs Wal-Mart's corporate giving, various sources indicate its general outlines.

### Sam's View of Giving

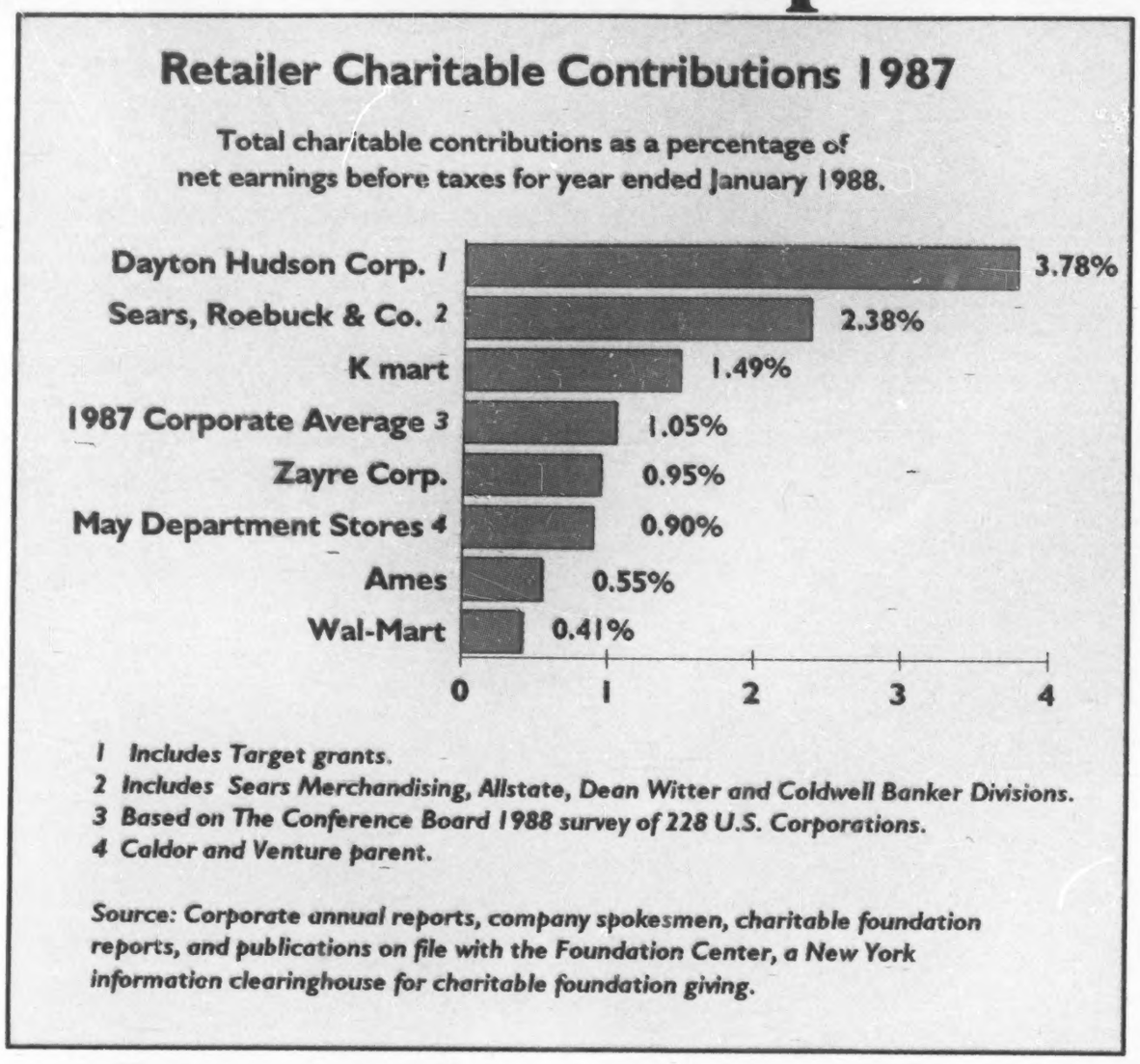
In an interview last year with *Stores*, the publication of the National Retail Merchants Association, Walton expressed his views on retailer philanthropy:

"One area I believe could be improved upon by retailers in general is that of being a good citizen within the community," Walton said. "We believe we have a responsibility to involve ourselves in civic organizations and fund-raising events to benefit the community, and we want to be as responsive to their needs as possible."

In a brochure for grant seekers, the Wal-Mart Foundation cites these objectives:

- "Give something of value back to the communities in which we operate stores;
- "To see that every effort is made to support local community programs through donations and fund-raising activities;
- "To make a statement to our customers that our desire is to improve the quality of life and to be a positive impact on the community."

Foundation grants cover six areas: The United Way, scholarships, economic development, Just Say 'No' (Nancy Reagan's anti-drug program), Children's Miracle Network, and community involvement.


Retailer Charitable Contributions 1987
Total charitable contributions as a percentage of net earnings before taxes for year ended January 1988.
Dayton Hudson Corp. 1
3.78%
Sears, Roebuck & Co. 2
2.38%
K mart
1.49%
1987 Corporate Average 3
1.05%
Zayre Corp.
0.95%
May Department Stores 4
0.90%
Ames
0.55%
Wal-Mart
0.41%
0
1
2
3
4
1 Includes Target grants.
2 Includes Sears Merchandising, Allstate, Dean Witter and Coldwell Banker Divisions.
3 Based on The Conference Board 1988 survey of 228 U.S. Corporations.
4 Caldor and Venture parent.
Source: Corporate annual reports, company spokesmen, charitable foundation reports, and publications on file with the Foundation Center, a New York information clearinghouse for charitable foundation giving.

In its 1989 report, Wal-Mart noted that United Way got a total of $4.1 million from associate contributions out of their pay, customer money raised through participation in in-store fund-raisers, and foundation donations. Of that, $1.56 million came from corporate coffers, Wal-Mart said in a release, while the balance came from an unspecified combination of money that associates donated from their pay and money they raised from Wal-Mart customers.

Besides the $1.2 million for scholarships and $2.5 million for The Children's Miracle Network, local community organizations also got a total of $2.5 million, the report said, without specifying how much came from corporate coffers.

The report also noted that two Wal-Mart stores and one Sam's Wholesale Club won the 1988 Helen Robson Walton Award for their fund raising.

The Wal-Mart in Anadarko, Okla., was one winner, and those fried pies helped carry the day, said office cashier Carbina Setters. She heads the employee committee that selects fund-raising projects.

Setters still chuckles about the night they cooked them in the employees' lounge. Because the wiring couldn't handle all those skillets, "we burnt out every fuse in the place," Setter said. "Bake sales are our specialty. We've got a bunch of good cooks down here."

All told, the Anadarko store raised $4,600 in 1988 for 11 community groups, she said. The Wal-Mart Foundation then matched that sum with $4,600 more, boosting the total to $9,200.

In another fund-raiser, a vendor donated two giant teddy bears to each Wal-Mart store, and Anadarko associates raffled off one at $1 a ticket, and gave the other to downtown merchants for their raffle.

Along with fried pies, the raffle raised a total of $918 for the Chamber of Commerce's Grant-A-Wish program. In addition, associates raised $1,000 for the Boy Scouts by buying a gas grill and raffling it for $1 a ticket, Setters said.

Associates also raised $202.02 for the Caddow Workshop for the handicapped by bringing in unneeded household goods and holding a rummage sale in front of the store.

### Other Charities

Other organizations that associates raised money for last year were: Galilian Center for the handicapped, $505.39; Anadarko High School Band uniforms, $986.90; PTA, $107.91; Anadarko Youth Center, $150; Anadarko High School Ag Boosters of Future Farmers of America, $729; Caddow County 4-H, $597.57; new roof for Veterans of Foreign Wars Club, $50; and high school Spanish Club, $250.

To honor the Anadarko associates, Wal-Mart flew three employees to its annual management meeting in Little Rock, Ark., for the award presentation: Setters, cashier Beverly Hatfield, and store manager Selman Justen.

For 1989, Anadarko associates already have raised $6,000, which the foundation also matched, Setters said.

The 1989 total includes $2,000 that associates raised for a new town library by cooking more fried pies and putting a fishbowl in the store to solicit customer donations.

And associates raised $320.32 this year for the Children's Miracle Network by raffling a bicycle displayed in the store, she said.

# Scholarships, Educational Programs Emphasized

Education is the "hot button" when it comes to philanthropy for Sam Walton and Wal-Mart.

A community scholarship program is a basic element of Wal-Mart Foundation giving. Each year each store handles a $1,000 college scholarship, payable over two years, for a high school senior living in its service area.

In addition, Wal-Mart operates three other scholarship programs: one for the offspring of full-time Wal-Mart associates; another for high school seniors who work part time for Wal-Mart, and the last for college students who work part time for Sam's Wholesale Clubs. The Wal-Mart Foundation coordinates all four scholarship programs.

The Walton Foundation, one of Walton's two active private charitable foundations, devotes a large proportion of its grants to $6,000 college scholarships, payable over four years, for about 100 offspring of Wal-Mart associates.

In addition to the community scholarships, the Wal-Mart Foundation also funds scholarships for high school seniors who work part time for Wal-Mart stores. Sam's pays for the scholarships for its part-time associates out of wholesale club division revenues.

Walton established still a third private foundation in 1987, the Walton Family Foundation. As of Jan. 31, 1989, the foundation still hadn't made any grants and its assets stood at just $1,390.

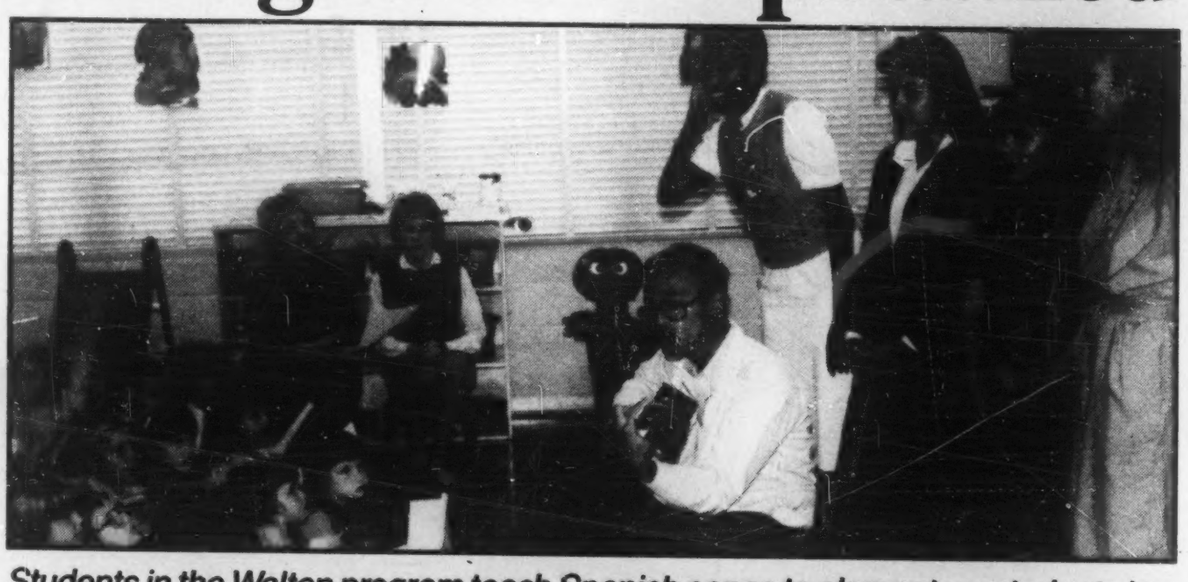
Walton probably established the foundation to accept upon his death the bulk of his estate to benefit education, speculated a scholarship official whose university benefits from Walton's generosity toward higher education.

In Delaware, the state certificate of incorporation for the Walton Family Foundation is couched in all-inclusive terms regarding its purpose: it will engage in any tax-exempt purposes in the religious, charitable, scientific, literary and educational fields.

Walton now personally funds a scholarship program for 180 students from seven Central American nations who are studying the American way of life at three Arkansas colleges. Estimated cost of each four-year scholarship is $9,000 per year.

The Walton Fine Arts Center at the University of the Ozarks and the Walton Lifetime Health Complex, a gym facility at John Brown University, testify to the generosity of Walton and his wife, Helen.

Still another sign of Walton's penchant for education is his support, both personal and corporate, for Students



*Students in the Walton program teach Spanish songs to elementary students in a school in Searcy, Ark. Marlon Grande of El Salvador plays guitar. The women standing from left to right are: Virginia Vasquez of Panama, Martha Valle of Nicaragua, Ivette Rogers of Panama, and Vene Rodriguez of Panana.*

In Free Enterprise, a program that recruits thousands of college students to teach elementary pupils and high school students about the American free enterprise system.

As if more proof of Walton's interest in education were needed, two years ago Walton and 18 other top Arkansas business executives founded the Arkansas Business Council. Its purpose is to improve education in the state. One of Walton's private foundations is contributing to the council's own foundation, which has granted $600,000 to improve technical education at two Arkansas colleges.

In a 1987 press conference held to announce the new venture, Walton said he and his fellow businessmen decided that aiding education was the best way they could help the state.

Walton expressed the council's goal: to develop "the best education system of any of the states in the Sunbelt.

"Someday we may go after Massachusetts," Walton told the press, "but let's just be the best we can be in the Sunbelt and the South."

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# Auto Warehouse Chains Rev Up Expansion Plans, Customer Service

*(Continued from page 7)*

to appeal to the professional installer, Ames said.

Service for business purchasers is another prime element of the club's approach. Business members can fax or phone in orders to be picked up, Ames said.

Auto Parts also delivers anywhere in San Diego County for a flat fee of $10 for orders of less than $250. On orders of $250 or more, the delivery charge is 4 percent of the order. "We're just trying to recover our delivery costs, not make a profit," he said.

Auto Parts draws primarily from a 10-mile radius, Ames said, but some customers have driven as far as 60 miles to shop.

As another service to professional installers, Auto Parts already has given four seminars for professional installers either to teach them how to use new products or to bring them up to speed on new laws that affect their work. Vendors sponsor the seminars and provide the instructors, while Auto Parts covers minor expenses such as fliers to promote them.

Motorcraft, the battery vendor for Auto Parts, gave one seminar, for example, on how to use its new electronic control module, and Sun Electric, which makes engine exhaust analyzers, put on a clinic on what California's tough new exhaust emission regulation means to the trade. Such seminars draw an average of 25 professionals but are closed to DIY group members, Ames said.

As another service to professionals, Auto Parts offers credit through its own credit card that a third party operates.

Ames declined to disclose what portion of sales he expects to come from professional installers as opposed to DIY customers, or how many sku's Auto Parts carries. Auto Giant will carry 13,000 sku's in 50,000 square feet of space.

Auto Parts is "quite competitive on price" with Price Club, also in San Diego, Ames said. John Carlson, Auto Parts' president and chief executive officer, is a former executive of The Price Co., which pioneered the warehouse club concept. He previously served as president of Price Club's real estate subsidiary.

Auto Parts actually beats Price Club by about 10 percent on prices of B.F. Goodrich tires, Ames noted.

Free tire mounting and balancing for $5 per wheel is the only automotive service Auto Parts offers. Auto Parts now offers no road hazard warranty, Ames said.

Automotives experience comes from Glenn Martin, vice president of merchandising, who previously owned Auto Parts Depot, a jobber with two warehouses and 25 outlets.

The honors for the first venture into auto parts warehousing, at least on a limited basis, belongs however to a St. Louis oil distributor, Chart Automotive Group. In June 1988 Chart founded what it calls The Chart Club in a 15,000-square-foot addition to its warehouse. (See DSN, Sept. 26, 1988, page 7).

Distributor customers thus have the choice of either letting Chart distributor workers pick and load their orders or go next door and save about 10 percent by doing that themselves.

The Chart Club accepts no group members, and business members pay a $75 annual fee. The offerings of about 3,500 sku's consist mainly of the same oils and chemicals that its distributor parent carries. However, it also stocks belts, hoses, batteries, spark plugs and compressors.

Chart Club entertains no ambitions either to expand its product lines or to open additional units, its manager said. In contrast, Auto Parts envisions opening 15 to 25 warehouse clubs, mostly on the West Coast and in Arizona, over the next three years.

Under president Frank Roberts, Auto Giant intends to open six warehouse stores in Southern California during the coming year with its public startup money and add eight more by the summer of 1991.

Both Auto Giant and SportsClub, as well as HQ Office Supplies, an office products warehouse chain that went public earlier this year, are creations of Robert J. McNulty. McNulty's first venture into the warehouse retailing field was the HomeClub, a home products chain that he sold in 1987 to the old Zayre Corp., now TJX Cos.

Despite the liquidation that a Chapter 11 bankruptcy trustee ordered last March for SportsClub, which once operated eight sporting goods warehouse units, McNulty had no difficulty raising $27 million from the public to found his office supplies chain.

In sharp contrast to Auto Parts Club, Auto Giant will be open to the public without any membership requirement, Roberts said. In another difference, Auto Giant will be heavily oriented toward the retail consumer. As one indication, Auto Giant will operate 16 to 20 service bays, and offer 13,000 sku's, Roberts said. Auto Giant will operate under the philosophy of "Do It Yourself, or We'll Do It For You," Roberts said.

Services to be offered include lube and oil change, tuneups, tires, batteries, brakes and shocks.

# DSN Publisher to Moderate Panel Discussion at Show

NEW YORK — *Discount Store News* publisher John Failla will co-moderate a panel discussion at the February Back-To-School Merchandise Show entitled "Update '90: Projecting Trends and Developments Over the Next Decade."

The co-moderator will be Jay Forbes, publisher of *DSN*'s sister publication, *Drug Store News*.

Failla and Forbes, along with a panel of executives from leading discount, drug and supermarket chains, will use the seminar to discuss major issues facing the back-to-school, stationery and home office supplies categories, among them long-term marketing.

The panel discussion will be held on Sunday, Feb. 11, from 8:30 a.m. to 9:30 a.m. in meeting room 1A03 at the Jacob Javits Convention Center.

"For our first show of the '90s, participants will be asked to look not only at the upcoming year but to preview what can be expected in terms of growth, product development and merchandising techniques through the turn of the century," said David Thalheim, president of Thalheim Expositions, the show's management company.

The 1990 Back-To-School Merchandise Show will include more than 1,000 vendor booths.


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Vol. 28, No. 23 Dec. 18, 1989

# Lechmere Adds Two Departments

WOBURN, Mass. — Lechmere, the 19-unit hard lines retailer, converted floor space previously occupied by hardware, into a baby furnishings department. Attached to the baby department is a small lighting department. A company spokesperson refused to divulge details of the new category additions. The two new departments were added in early November and feature many of the top names in their fields. In baby furnishings, Lechmere sports such labels as Fisher-Price, Little Tykes, and Prego.

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CO240370
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CONGRESSIONAL INFOR SVC 137
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BETHESDA MD 20814
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ome Office Merchandising—page 29

Discount Store News

THE NEWSPAPER OF DISCOUNT RETAILING

SECOND CLASS

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# Prices Plateau as Shows Near

*Consumer Electronics at K mart, Oak Park, Mich.: Vendors are trying to maintain margins by introducing multi-feature products.*

*Housewares at Stuarts, New Bedford, Mass.: Buyers at this month's Housewares Show will find prices stabilizing after two years of increases.* (DSN photos)

## At Winter CES, Manufacturers Hold Price Points, Add Features

**By Pete Hisey**

LAS VEGAS — Winter 1990 shapes up to be a bitter, price-oriented battleground in the consumer electronics industry, with manufacturers offering more products than ever at roughly the same prices as a year ago.

However, several manufacturers, like Funai and Royal Business Products, are entering new categories with ever-lower prices. Particularly hard-hit will be two growth areas that have traditionally held their prices: home office and portable reference devices.

Manufacturers have attempted to maintain marketshare by adding features instead of cutting prices. For instance, RCA will sell VCRs with a new simplified on-screen programming

*(Continued on page 80)*

## Houseware Makers Brake Prices; Branch Out to New Categories

**By Mary Ellen Kelly**

CHICAGO — Housewares retailers will get a break from rising prices this year as manufacturers report no major hikes for 1990, after two consecutive years of significant price increases.

Vendors exhibiting at the International Housewares Exposition here in the Windy City said house wares prices in 1990 will remain relatively stable—other than minor adjustments of about 3 percent for inflation.

Adding to the downward pressure on prices: a leveling of raw material costs, with some vendors even reporting a drop in the costs of certain types of plastic; and lackluster consumer spending in the fourth quarter, giving rise to the fear that shoppers will defer

*(Continued on page 79)*

## Wal-Mart Tests C-Store Biz; Tinkers with Hypermart USA

BENTONVILLE, Ark. — Looking for new retail worlds to conquer in the 1990s, Wal-Mart is taking its first tentative steps in tackling the gas-and-convenience store business.

The nation's No. 2 discounter has opened seven combination gas-and-convenience stores in parking lots already serving Wal-Mart discount stores, SuperCenters and Hypermart USAs. Two other convenience stores are under construction.

In a related development, Wal-Mart declined to confirm rampant rumors in the market that it is preparing to change the name of its three hypermarkets—now called "Hypermart USA"—to a name that would directly reference "Wal-Mart." Names being bandied about include "Wal-Mart USA" and "Wal-Mart's Hypermart USA."

*Wal-Mart Super USA in Farmington, Mo.: One of seven C-Stores in operation.* (DSN photo)

*DSN* has also learned from a number of ven-

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## VIEWPOINT:

### Guarding Environment Is Everyone's Responsibility

When Wal-Mart ran full-page advertisements last fall in the *Wall Street Journal* and *USA Today* urging its vendors to make products and use packaging less harmful to the environment, the retailer struck a chord of a growing American concern.

Since then, other chains, notably K mart, have made a similar request of their vendors. *DSN* has touched on a number of environmental concerns affecting discounters, from biodegradable trash bags to new laws governing compounds used in paint formulations. This issue contains articles dealing with both the marketing opportunities and problems created by the recycling of auto batteries and motor oil containers (see page 3), and with the continuing confusion over the efficacy of "photo" or "bio" degradable trash bags (see page 54).

Safeguarding the environment goes beyond being a business or marketing issue. It's the responsibility of retailers, wholesalers, manufacturers and packagers to ensure that making a buck doesn't mean relinquishing social responsibility. *DSN* applauds the efforts of all those who have taken up the environmental crusade, at the same time noting that much, much more needs to be done to ensure a habitable world.

## MARKETWATCH

### K mart Begins Construction of Florida DC

TROY, Mich. — K mart has begun constructing a 1,550,000-square-foot distribution center in Ocala, Fla., to support its planned "aggressive" expansion in the Sunshine State, where it already has 149 stores. K mart currently has 16 DCs, with the Newnan, Ga., facility serving its Florida units. The 90-acre Ocala DC is due to be completed in June 1991.

### Ames Subsumes Zayre Urban Arm

ROCKY HILL, Conn. — Steve Jelin, Ames Department Stores senior vice president responsible for the Zayre Urban Stores division, has left the discounter. Ames, meanwhile, has folded the Zayre operation into the Ames merchandising organization. A group of Ames merchandisers will tailor the discounter's assortment to fit the specialized merchandising needs of the chain's urban stores which include the 61 Zayre stores and 50 or 60 Ames stores with a significant urban customer base.

### Kelley Heads Up Consolidated Stores

COLUMBUS, Ohio — William Kelley, formerly president of teleshopper CVN, has been named chairman and chief executive officer of closeouter Consolidated Stores. He succeeds James M. Guinan, who retired last month. CVN, which also operated the C.O.M.B. closeout catalog division, was acquired late last year by QVC, a rival teleshopper. Guinan joined Consolidated in 1987 shortly after he took early retirement following May Department Stores' acquisition of Caldor, which he then headed.

### Trump, Roth Ponder Alexander's Future

NEW YORK — Financially troubled Alexander's might soon join other New York retailers on the selling block. Controlling shareholders Donald Trump and Steven Roth, the latter head of Interstate Properties, have hired Morgan Stanley & Co. to "consider strategic alternatives to maximize stockholder value, including the possible sale" of the 11-unit apparel-oriented discounter. While Alexander's announced last October that it would open its first new store in 10 years in the East Bronx, the discounter has been focusing on its real estate, selling and/or redeveloping sites to get the most out of its properties. Trump and Roth, each of whom holds about a 27 percent stake in Alexander's, have disagreed about the chain's future, including the best use of its flagship midtown Manhattan store site across from Bloomingdale's.

### EDI Awards to Wal-Mart, Others

DALLAS — EDI, spread the word! has presented three "Hundreds of Partners" awards to Wal-Mart for its electronic data interchange programs. The discounter was cited for the largest standard EDI program, the largest retailer EDI program and the fastest rate of implementing programs which occurred during the second half of 1989. K mart's Builders Square division was cited for the largest hardware retailer EDI program while SuperValu Stores (parent of ShopKo) received the award for the largest grocery industry program.

### Prodigy Hits 200,000 Subscriber Mark

WHITE PLAINS, N.Y. — Prodigy grew over 450 percent last year, ending 1989 with over 200,000 households as members and about 315,000 individuals using the interactive computer shopping and information service. Prodigy has signed up about 5 percent of the households containing personal computers—IBM and compatibles and Apple Macintosh— equipped to receive the service in the 25 markets where the system is currently available, the company reported.

### HSN Takes Loss; Streamlines Operations

ST. PETERSBURG, Fla. — While Home Shopping Network lost its $100 million suit against GTE, the failure didn't cost the teleshopper anything as the GTE settlement will be paid by HSN's insurance companies. However, HSN had decided to focus operations on its core electronic retailing business, taking a non-recurring $28 million pretax charge for the writeoffs of some discounted non-teleshopping operations. This step resulted in the teleshopper reporting a $14.9 million net loss for the fiscal year ended Aug. 31, 1989,against a net income of $18 million in 1987. Sales, however, increased 6.1 percent to $774.3 million from $730.1 million.

# DISC Award Entries Sought

NEW YORK — Jamesway's support of the Muscular Dystrophy foundation, among other community service projects, helped the discounter earn the 1988 DISC (Discounters in Service to the Community) award.

In 1987, DISC award winner Hills Department Stores supported a vast number of charities and causes, particularly the "Just Say No" campaign against drug abuse. And, in 1986, Zayre Corp.'s contributions to a variety of programs, including scholarships for single mothers returning to school and funds for housing battered women, put that company among the most community-minded discounters in the nation.

*Discount Store News* is now accepting entries for the 1989 DISC (Discounters in Service to the Community) award. Started in 1979, the DISC award was developed to recognize the many outstanding community service efforts of the discount store industry.

Besides Jamesway, Hills, and Zayre, other previous honorees include Ames as well as Target.

To enter, discount chains should submit documentation (including newspaper/magazine clippings, letters, videotapes, etc.) that cites the goals and achievements of the service programs they conducted during calendar year 1989.

Each entry must include a statement of at least 100 words outlining the company's philosophy and strategy for its community service commitment. Each entry must contain four complete sets of all materials for judging. Each will be judged by a panel of judges from the discount industry, including the participation of *DSN*'s Board of Advisors.

Deadline for entries is March 1, 1990. A winner will be announced April 23, in *DSN*'s pre-IMRA show issue.

Entries should be sent to DISC Award, Editor, Discount Store News, 425 Park Ave., New York, N.Y. 10022.

***DSN editor Tony Lisanti (second from right) presents the 1988 DISC Award to Jamesway officials Arlie Lazarus (left), Victor Scire and chairman Herb Fisher.*** (DSN photo)

# New York Files Suit Against Sears

NEW YORK — Sears thought it had only to convince consumers that it adopted an everyday low pricing policy. Apparently not. New York Attorney General Robert Abrams claims the new pricing structure is a fraud and is suing the retail giant for false advertising.

The charges, filed last month by Abrams, accuse Sears of advertising everyday low prices but not carrying through with its program.

Abrams said Sears actually charges more on some products than it did before the new pricing policy was instituted last March. In addition, the lawsuit claims that Sears' regular prices are often "inflated, fictitious figures that consumers rarely, if ever, paid, and the sale prices were prices at which almost all sales were made."

The New York attorney general's suit covers about 20 items Abrams claims is representative of Sears' false advertising. These include appliances, hardware, and furniture.

A Sears spokesman said the retailer's attorneys were currently reviewing the suit.

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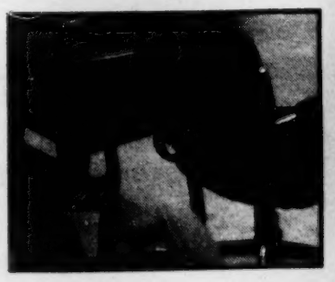


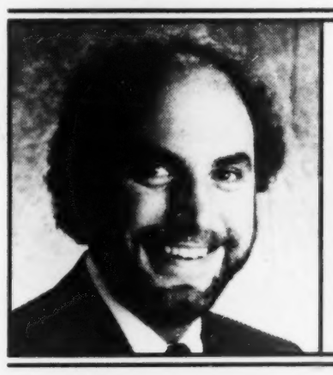
## EDITORIAL

# *Suit Against Sears' Prices Doesn't Wear Well*

It was a tough year for Sears. And it wasn't such a Merry Christmas either!

Ever since the nation's largest retailer switched to an everyday low price strategy last March to revitalize sales and revamp its stodgy image, Sears has been struggling. Its story has been the subject of the media nationwide.

And as Sears approached the holiday season hoping for a joyous celebration, it got an unexpected "gift" from New York state that dampened the holiday spirit throughout "The Tower" and kept Sears in the headlines.



**TONY LISANTI**
Editor

Three days before Christmas, New York Attorney General Robert Abrams charged Sears with falsely advertising sale prices. The lawsuit claimed that Sears' everyday low prices were the same as its regular prices before it switched its pricing strategy. I'm sure every retailer remembers Sears' announcement—and subsequent media blitz—that it was lowering prices on some 50,000 items and advertising it as the sale that never ends.

Well, anyone that understands the methodology of pricing understands Sears' goal for adopting the EDLP strategy. Sears was attempting to eliminate price promotions that are common in retailing, and hopefully be more competitive. Pick up any newspaper on any day and you will find examples of a product promoted at a discounted or sale price vs. the so-called regular price. The intent of EDLP is to assure customers that they will be able to purchase a product anytime at the same price. Today's consumers understand the difference between a sale price and a regular price. They know prices, Mr. Abrams, probably better than your staff.

However, if you're trying to protect the consumer, why don't you put a stop to deliberate price gouging. Consider the following example: During the Christmas season a consumer report broadcast by WCBS-TV in New York City uncovered a retailer that was charging double the average price for a popular toy. The Variety Toy Store in Brooklyn, it was reported, was selling Oopsie Daisy—one of the season's hottest items—for $70. The average price was about $38. Supply and demand? Or a ripoff?

What do you think, Mr. Abrams?

I believe that there are many other more important issues for you to spend 18 months investigating. But, unfortunately, this case will probably be debated for a long time. Its outcome will not only affect Sears but all retailers nationwide.

The credibility of the entire retailing industry is at stake.

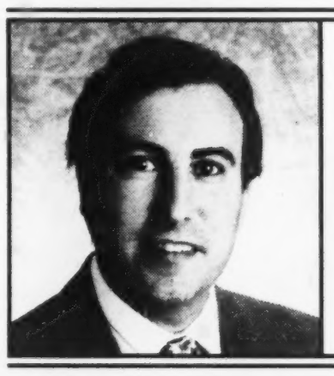
## BUYERS & SELLERS

# *An Open Letter to K mart's Joseph Antonini*

Dear Joe:

It seems everyone is kicking K mart nowadays. What has happened to the company that, in your own words, was "positioning future growth in discount operations, warehouse and groceries concepts, and specialty stores to maintain our dominance in the retail arena"?

Well, I'm not as pessimistic as some of the analysts I've heard from recently. As we embark upon a new decade, I'd like to offer some (tongue-in-cheek) New Year's Resolutions that should help improve your sales and profits.



**DON LONGO**
Exec Editor

**A pink slip for Jaclyn Smith:** Now that Sears has jettisoned Cheryl Tiegs as its spokeswoman, it's time to also bid adieu to Jackie. Without playing down her contributions in helping to get K mart apparel on the map, it seems to me that the princess of the soap opera miniseries has outlived her usefulness in selling apparel to middle class women. Roseanne Barr would make more sense, and just think what she'd do for K mart's plus-size business.

**Ditto, Martha Stewart:** This self-proclaimed prophet of good taste has a certain snob appeal to aspiring hostesses. However, my guess is that the mainline K mart customer, probably a working mother with a rattling side-paneled station wagon and whose best friend is her microwave oven, has difficulty relating to this Connecticut connoisseur. If you're so intent on alienating your customer, why don't you just hire Ivana Trump as "decorating" consultant.

**Sell Waldenbooks:** It's not a neat fit into your other retail operations, and you could reinvest the capital into your K mart discount stores. Besides, with illiteracy rising, this could be a good time to divest yourself of this division.

**Nurture future shoppers:** Produce a Saturday morning cartoon starring Dusty Lenscap, my favorite K mart spokesman.

**Close American Fare:** Convert the hypermarket into an office building. Then, you can move K mart's corporate office from Detroit to Atlanta. It's a well-known fact that analysts look more favorably upon a company that they can visit in a warm weather site.

**Go west, and go east:** Open stores overseas. Since past growth has been primarily fueled by store openings, you need new markets for K mart stores. Europe, especially with the changes taking place there, is fertile territory. Japan is also a possibility. After all, McDonald's has made the Big Mac sell in the Land of the Rising Sun.

**As a last resort:** If all this doesn't work, sell your stores, buy a television studio, and hire Pat Sajak to host a home shopping program called the K mart Shopping Network.

## WASHINGTON REPORT

# *Court Decision Could Spell the End for RPM*

Discounters are rightfully concerned over resale price fixing conspiracies designed to eliminate price-cutting and maintain retail prices at artificially high levels.

But what about resale price fixing schemes aimed at preventing retailers from charging too much for a product? Retailers injured by RPM are entitled to treble damages under federal law. But what about manufacturers who are injured by a competitor's illegal scheme to force retailers to charge lower prices? For example, can a supplier of timepieces successfully sue for damages from a competitor that conspires with retailers to place a ceiling on resale prices for its line?

**KEN RANKIN**

According to current antitrust law, the answer is yes—but only if an injured supplier actually lost sales or profits because its competitors fixed prices at predatory levels (a proposition that's nearly impossible to prove). Those precedents, however, are in danger of collapsing under the weight of a new antitrust case now before the Supreme Court.

At the heart of that case: a ruling by an Appeals Court panel which held that a competitor need not prove that the effect of a price fixing conspiracy was to produce predatory prices. Our hypothetical watchmaker, as a result, would be entitled to treble damages simply because its lost sales were caused by a per se illegal practice (i.e., maximum price fixing).

If the ruling is upheld, it will become far easier for manufacturers to challenge maximum resale price fixing conspiracies. And it should also become easier for suppliers to attack RPM schemes against discounters.

Overnight, the cost of RPM could go up dramatically!

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We welcome our readers' views, whether pro or con. Letters to the editor should be addressed to: **Editor, *Discount Store News*, 425 Park Ave., New York, NY 10022.**

# CE Chains Try to Pick Up Slack After VCR Peak

*Nationwide DSN Report*

Nationally, 1989 was not a good year for consumer electronics chains. Even Circuit City, the Wal-Mart of CE retailers, had a tough year, showing only 2 percent same store increases through the first three quarters.

With Highland Superstores, Best Buy, Fretters, the late Crazy Eddie, and many more reporting declining sales and less-than-robust profits, the observer was left wondering "Is *anyone* making any money in CE?"

A quick look at a list of the nation's top CE retailers is, at best, discouraging. However, there are a few survivors.

Newmark & Lewis, which had well-publicized problems in 1988, returned to profitability in '89 despite a dip during the third quarter. For a chain rumored to be on the block (management said it would simply entertain offers), the company also made strides in developing and producing a new, upscale prototype, which it rolled out to several sites through 1989, with more sites planned for 1990.

According to chairman Warren Hyman, Newmark & Lewis' troubles had little to do with the bitter New York market. "New York is not the toughest market in the world anymore," he said. "That used to be true, but now virtually every major city in the U.S. is a tough market; there are power players in the plural in every major market."

Rather, the problem remains that there hasn't been a hot new product to replace the VCR. But Newmark & Lewis, like many other retailers, has found ways to pick up some of the slack. "The VCR isn't our whole world," Hyman said. "We've seen good increases in camcorders, home office, fax machines, word processors, minicomputers, copiers and cellular telephones."

Big screen television has been healthy, although "they're not really mass market products," Hyman said. "They do well in our better stores."

The name of the game for Newmark & Lewis, though, is market share. The failure of Crazy Eddie certainly benefited the chain, but only slightly. Comparable store sales were up 7 percent in the first half of '89, but The Wiz, with locations often within a block of Crazy Eddie's urban stores, probably picked up more than other New York retailers. So, Hyman and his management team have come up with several new strategies.

The first was an everyday low price policy with price guarantees and a 125 percent money back offer if a customer found his product sold for less somewhere else. "EDLP has done well for us and kept our margins up," Hyman said. A major advantage: in the past, salespeople started at suggested list and negotiated down and "often didn't know where to stop. Now we have firm prices except in the case of meeting the competition, so there's a little more predictability as far as margins are concerned."

The company has also established its own credit card, with gratifying results. "We're taking a product [like Visa] that has a cost to us and turning it to our advantage," Hyman noted.

### New Prototype

The third strategy is the store's new prototype, which includes, at central stores, custom installation for automobile sound, video and communications equipment.

With a cleaned up, high-tech look, the new prototype, which premiered in affluent Riverhead, N.Y., on Long Island, was incorporated into a Brooklyn, N.Y.,store and will be rolled out to new and existing markets through 1991.

The custom installation portion (about 5,000 square feet with six bays) is a key component, Hyman said. "The cellular telephone is being dismissed too quickly," he said. "People say it's just an auto accessory and will peak soon. But I see its future as a personal product that, in the future, you won't even think of leaving your office without. It will become a way of life."

Also, car audio and video is a booming business, with great potential for growth, Hyman said. Service centers are being established at "central" units, to serve three or four Newmark & Lewis units.

Hyman also feels that HDTV and some form of digital recorder (DAT or CD) will

*(Continued on page 45)*

**Top Consumer Electronics Specialty Chains**

| Chain | Sales (In Millions) 1988 | Sales (In Millions) 1987 | Percent Change | Number of Stores 1/88 | Number of Stores 1/89 | Number of Stores Proj. 1/90 | Average Store Size (In Sq. Ft.) |
|---|---|---|---|---|---|---|---|
| **Circuit City** Richmond, Va. | $1,721 | $1,350 | 27.5% | 105 | 125 | 145 | 32,000 |
| **Highland Superstores** Taylor, Mich. | 911 | 753 | 21.0 | 72 | 84 | 97 | 24,000 |
| **Silo** Philadelphia, Pa. | 815 | 650 | 25.4 | 150 | 210 | 227 | 10,000 |
| **Best Buy** Minneapolis, Minn. | 507 | 439 | 15.5 | 40 | 41 | 51 | 25,000 |
| **Tops Appliances** Edison, N.J. | 320 | 284 | 12.7 | 2 | 2 | 3 | 50,000 |
| **Crazy Eddie**[1] Edison, N.J. | 253 | 317 | (20.2) | 42 | 43 | 25 | 10,000 |
| **The Federated Group** Sunnyvale, Calif. | 253 | 437 | (42.1) | 65 | 61 | 0 | 30,000 |
| **Newmark & Lewis** Hicksville, N.Y. | 238 | 242 | (1.7) | 46 | 52 | 57 | 9,000 |
| **American TV** Madison, Wis. | 235 | 199 | 18.1 | 6 | 7 | 7 | 80,000 |
| **The Wiz,** New York, N.Y. | 235 | 218 | 7.8 | 24 | 26 | 28 | 12,000 |
| **Fretter** Livonia, Mich. | 231 | 250 | (7.6) | 47 | 54 | 60 | 12,000 |
| **Audio-Video Affiliates** Dayton, Ohio | 196 | 212 | (7.5) | 114 | 125 | 130 | 10,000 |
| **Wall to Wall Sound & Video** Cinnaminson, N.J. | 152 | 132 | 15.2 | 107 | 107 | 107 | 8,000 |
| **The Good Guys**[2] San Francisco, Calif. | 149 | 120 | 24.2 | 15 | 18 | 22 | 15,000 |
| **Trader Horn** Hasbrouck Heights, N.J. | 140 | 140 | 0.0 | 15 | 16 | 16 | 8,000 |
| **Luskins** Baltimore, Md. | 123 | 127 | (3.1) | 44 | 45 | 46 | 9,000 |
| **Brick Church** Orange, N.J. | 100 | 100 | 0.0 | 22 | 40 | 40 | 15,000 |
| **Fred Schmid** Denver, Colo. | 100 | 93 | 7.5 | 17 | 19 | 16 | 12,000 |
| **Total:** | $6,679 | $6,063 | 10.2% | 933 | 1,075 | 1,077 | |

*[1]Crazy Eddie has ceased operations.*

*[2]The Good Guys fiscal year ended Sept. 30, 1989.*

*Source:* DSN *research*


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